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1971

ANNUAL REPORT

THE HAMILTON GROUP LIMITED

THE HAMILTON GROUP LIMITED

ANNUAL REPORT 1971

Contents

HEAD OFFICE:	270 Sherman Avenue North Hamilton, Ontario
DIRECTORS:	Alan V. Young
	William H. Young President The Hamilton Group Limited
	E. Glover Howe Vice-President and Secretary-Treasurer The Hamilton Group Limited
	Gordon B. Lawrence Senior Vice-President Cosmos Imperial Mills, Limited
	Lincoln S. Magor President Mimik Limited
	Robert N. Steiner Senior Partner A. E. Ames & Company
	Alan B. Young President North America Business Equipment Limited The Medi-Dent Service Limited
	David M. Young Chairman Hamilton Leasing Limited
	James M. Young Vice-President The Hamilton Group Limited

OFFICERS:

William H. Young	President
Paul A. Southall	Vice-President
Alan B. Young	Vice-President
David M. Young	Vice-President
James M. Young	Vice-President
E. Glover Howe	Vice-President and Secretary-Treasurer

REGISTRAR AND TRANSFER AGENT:	Canada Permanent Trust Company Toronto, Ontario

HIGHLIGHTS 1971

Gross income	$18,023,840.00
Earnings available for common shares . . .	$ 1,098,228.00
Earnings per share	$ 1.73
Dividends paid	$ 0.44
Total assets at the year end	$44,842,153.00
Common shares owned in Canada	97.7%

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS:

The fiscal year ended April 30th, 1971 was an eventful one for the Company:

it obtained a new name;

it changed its fiscal year end;

it subdivided its common shares on a five-for-one basis;

it increased its authorized capital;

it twice increased the quarterly rate on its common share dividend;

it purchased all shares, not previously owned, of North America Business Equipment Limited;

it acquired all shares of The Medi-Dent Service Limited;

it arranged an agreement in principle with Citicorp Leasing International Inc. to provide future financing;

it derived over 80% of its net income from its leasing subsidiaries and from dividends on its investment in leasing companies abroad.

OPERATIONS

Net income for the thirteen-month year was $1,111,158. This figure includes the net income of North America Business Equipment Limited for twelve months and the net income of The Medi-Dent Service Limited for the nine months after its shares were acquired. It also includes dividends received in a twelve-month period. Only the income from textile and miscellaneous operations was consolidated on a thirteen-month basis. Earnings per common share after preferred dividends of $12,930 were $1.73 on 634,984 shares, the average number outstanding during the year. Earnings per common share for the fourth quarter of the year were $351,347 or 50c on 688,517 shares, the average number outstanding during the quarter.

Included in income for the year as an extraordinary item, is a reduction in income taxes payable of $97,500, arising from the application of losses of prior years. Due to losses of prior years and unclaimed capital cost allowance, substantial reductions in future income taxes should be realized.

The quarterly dividend rate on the common shares was increased to eight cents per share in June, 1970 and to ten cents per share in March, 1971. In addition, an extra dividend of ten cents per common share was paid on April 1, 1971, bringing total payout for the fiscal year to 44 cents per common share. Since the year end the quarterly rate has been increased to fifteen cents per common share with the dividend paid July 2, 1971.

FINANCIAL

Easing monetary conditions, particularly during the latter part of the fiscal year, enabled the Company to increase its lines of credit with Canadian banks and so reduce its dependence on loans in non-Canadian currency for the funds required to sustain the growth of the Canadian leasing subsidiaries. Lower interest rates on borrowed funds improved profit margins of these companies.

It is Company policy to hedge all obligations in foreign currencies maturing within one year. Consequently the increase in the value of the Canadian dollar during the year had little effect on consolidated income. The gain realized by the leasing companies was substantially offset by a decline in the Canadian equivalent value of holdings in U.S. dollars.

Subsequent to the year end, the remaining $491,000 of 8% First Mortgage bonds due April 1, 1972 were called and the remaining $825,000 8¾% Series A debentures due August 1, 1983 were purchased at par from the holders and cancelled. The trust deeds securing these bond issues contained restrictions appropriate to a textile manufacturing company. Future growth of the Company's leasing subsidiaries required that these restrictions be removed. These obligations were included as Short Term Secured Debt in the balance sheet at April 30, 1971.

COMMON SHARES OUTSTANDING

After giving effect to the five-for-one subdivision, the Company had 422,500 common shares issued and outstanding at the commencement of the fiscal year. In August, 1970, 90,425 common shares were issued from the treasury to acquire common shares of The Medi-Dent Service Limited. During the year all the Hamilton Group outstanding Series B preferred shares were converted into 165,000 common shares and 12,550 Series A warrants were exercised to purchase 12,550 common shares. Common shares issued and outstanding at the year end were 690,475. In addition, there were 19,950 Series A warrants outstanding which entitle the holders to purchase a like number of common shares at $7.00 per share up to and including July 2, 1972.

At April 30, 1971, 45,000 warrants were outstanding to purchase 45,000 shares in North America Business Equipment Limited at $7.50 per share to October 1, 1971. In June, 1971, an offer, which was accepted, was made to the holders of these warrants to exchange them for warrants to purchase 28,125 common shares of The Hamilton Group Limited at $12.00 per share to October 1, 1971. These ratios were determined by applying the same relative figures used in the successful offer to purchase the minority shareholding in North America Business Equipment in 1970. Also, at April 30, 1971, there were warrants outstanding to purchase 5,000 common shares of The Medi-Dent Service Limited at $4.00 per share until August 15, 1974 and at $8.00 per share until August 15, 1979. Negotiations to purchase these are taking place.

CITICORP LEASING INTERNATIONAL INC.

An agreement in principle was reached in December with Citicorp Leasing International Inc., under which it will provide $12,900,000 in financing for Hamilton Group over a three-year period. Citicorp Leasing will purchase $3,900,000 of Hamilton Group 7½% preferred shares convertible into Hamilton Group common shares at $10.00 per share. It will also provide Hamilton Group with $9,000,000 in subordinate term debt. The funds will be provided in three draws, eighteen months apart, each consisting of $1,300,000 of preferred shares and $3,000,000 of subordinate debt. The equity and subordinate debt will create a base for much larger borrowing of senior debt which should provide the funds needed for Hamilton Group to sustain or augment its rapid rate of growth over the next four or five years.

Citicorp Leasing is a wholly-owned subsidiary of First National City Corporation of New York and, as such, is an affiliate of the First National City Bank. The shareholders of Hamilton Group will be asked to approve this arrangement at a Special Meeting when it is in final form.

BOARD OF DIRECTORS

Three present members of the Board are not standing for re-election at the annual meeting of shareholders.

Alan V. Young joined the Company in 1906 and became its President in 1915 and Chairman of its Board of Directors in 1961. Throughout his sixty-five years of service he has provided the outstanding leadership and guidance that has seen the Company progress from a small textile operation. He will continue to be associated with the Company as Honorary Director.

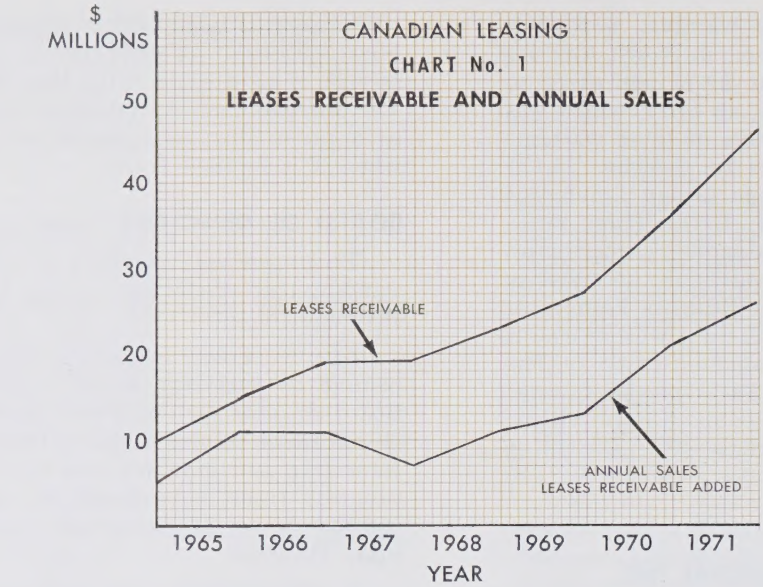
E. Glover Howe who first joined the Company in 1932 and served as its Vice-President and Secretary-Treasurer has reached retirement age. His loyal and valued contribution to the affairs of the Company over the years is much appreciated.

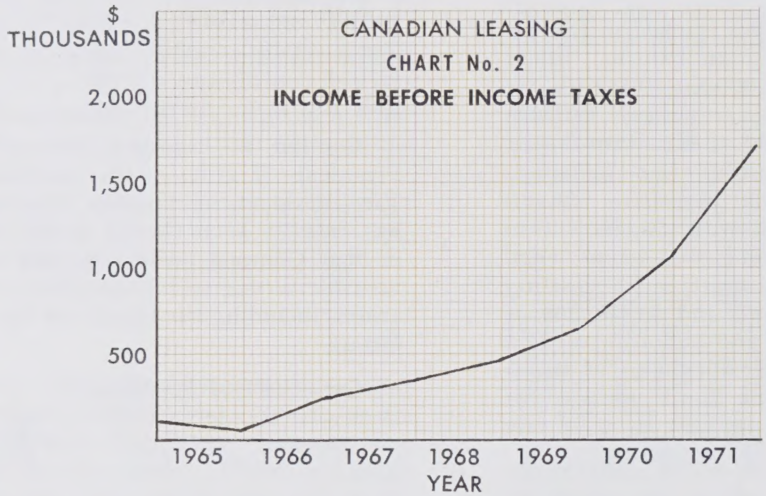
Gordon B. Lawrence, formerly Executive Vice-President—Textiles of the Company, and now Senior Vice-President of Cosmos Imperial Mills, Limited, has recently been elected to the Board of Directors of that Company where he will continue to render valuable service to the direction of the Cosmos operations, including the textile interests of The Hamilton Group.

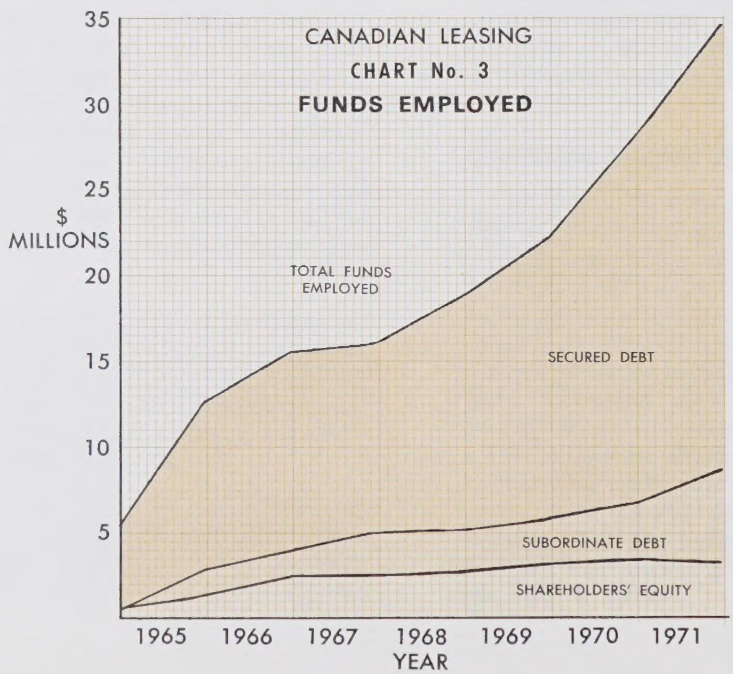
On behalf of the Board.

W. H. YOUNG,
President.

THE
HAMILTON
GROUP
LIMITED


$
MILLIONS
CANADIAN LEASING
CHART No. 1
LEASES RECEIVABLE AND ANNUAL SALES
50
40
30
20
10
LEASES RECEIVABLE
ANNUAL SALES
LEASES RECEIVABLE ADDED
1965 1966 1967 1968 1969 1970 1971
YEAR


$
THOUSANDS
CANADIAN LEASING
CHART No. 2
INCOME BEFORE INCOME TAXES
2,000
1,500
1,000
500
1965 1966 1967 1968 1969 1970 1971
YEAR


CANADIAN LEASING
CHART No. 3
FUNDS EMPLOYED
35
30
25
$
MILLIONS
20
15
10
5
TOTAL FUNDS
EMPLOYED
SECURED DEBT
SUBORDINATE DEBT
SHAREHOLDERS' EQUITY
1965 1966 1967 1968 1969 1970 1971
YEAR

CANADIAN LEASING

During the fiscal year ended April 30, 1971, The Hamilton Group Limited acquired the outstanding common shares of The Medi-Dent Service Limited (MDS) and the outstanding minority interest in North America Business Equipment Limited (NABEL). These acquisitions included payments for goodwill of $669,930 as set out in Note 1 to the financial statements. This amount was written off to retained earnings of Hamilton Group during the year. As noted previously the results of MDS and NABEL have been included in the consolidated financial statements for 9 months and 12 months respectively which reflect the effective dates of acquisition. The combined 12 month leasing net income was $820,484 of which $768,774 is included in the consolidated earnings of Hamilton Group. To provided an idea of the magnitude of the leasing operations in Canada, the combined results of MDS and NABEL are provided in the Summary of Results on page 8 and are compared to equivalent results of the previous year.

As the Summary of Results indicates, Canadian leasing had a very successful year. Sales volume as measured by "leases receivable added" increased 23.4% to $26,184,000 which represents a new record for MDS and NABEL, despite a Canadian economy that showed little growth.

The increased sales volume and a much slower increase in the cost of borrowed money led to a 54.7% increase in net income to $820,484. The relatively small increase in the cost of borrowed money was due to the generally lower interest rates and to a gain on foreign exchange caused by the strengthening of the Canadian dollar. This gain was realized after making full provision for all foreign exchange obligations due within one year, at current rates of exchange.

The bad debt experience of the leasing operations also improved markedly during the year. Not only did net losses show a 20.9% reduction over the previous year, but the provision for losses charged to income dropped from 9.6% to 7.5% of earned income. The allowance for losses as a percentage of leases receivable rose from 1.6% to 1.8%. The percentage of accounts in arrears over 30 days also established a new low.

A combined five year summary is presented on page 9. This summary indicates a steady growth rate which is shown graphically on charts 1 to 3 (opposite). With additional financial resources as noted before in this report (page 5), a minimum growth rate of 20% per year appears attainable. The 30% increase in staff and the 48% increase in general and administrative expenses in part reflect the planning and preparation to achieve this rate of expansion. Although increased competition is expected, this should be more than offset by a return to a more buoyant economy.

Since the year end, a third leasing division has been created—Direct Leasing Limited. MDS has provided excellent leasing service to the health services area and NABEL to the vendors of office equipment. Now Direct will provide a leasing service to the balance of the industrial and commercial markets not now serviced by Hamilton Group subsidiaries. This is an important development and with proven staff and control should materially assist in the continued profitable growth of Canadian leasing operations of Hamilton Group.

CANADIAN LEASING

COMBINED SUMMARY OF RESULTS

FOR THE 12 MONTH PERIOD ENDED APRIL 30th	1971	1970	Percentage Increase (Decrease)
Lease income	$14,450,000	$11,121,000	29.9
Earned income	$ 6,264,000	$ 4,694,000	33.4
General and administrative expenses	$ 1,788,000	$ 1,208,000	48.0
Cost of borrowed money	$ 2,256,000	$ 1,983,000	13.8
Net income	$ 820,000	$ 530,000	54.7
Net losses due to bad debts	$ 238,000	$ 301,000	(20.9)
Leases receivable added	$26,184,000	$21,214,000	23.4

AS AT APRIL 30th	1971	1970	Percentage Increase (Decrease)
Number of leases	41,200	32,600	26.4
Leases and notes receivable	$45,977,000	$36,159,000	27.2
Unearned income	$11,554,000	$ 8,983,000	28.6
Allowance for possible future losses	$ 814,000	$ 577,000	41.1
Original cost of equipment on lease and renewal	$57,803,000	$45,897,000	25.9
Estimated residual value of equipment	$ 1,818,000	$ 1,262,000	44.1
Future commitments to purchase equipment for lease	$ 3,303,000	$ 2,907,000	13.6
Number of employees	137	105	30.5

CANADIAN LEASING

COMBINED FIVE YEAR SUMMARY

(Dollar amounts expressed in $000's)

		1971	1970	1969	1968	1967
BALANCE SHEET						
Leases receivable	$	45,977	36,159	27,414	23,184	19,724
Allowance for losses	$	814	577	430	221	209
Allowance for losses to leases receivable	%	1.8	1.6	1.6	1.0	1.1
Unearned income	$	11,554	8,983	6,367	5,005	3,811
Unearned income to leases receivable	%	25.1	24.8	23.2	21.6	19.3
Estimated residual value of equipment	$	1,818	1,262	742	380	104
Total assets	$	38,127	30,920	23,707	19,992	16,981
Secured debt—short term	$	20,389	17,656	15,037	13,454	10,832
Secured debt—term	$	6,066	3,895	809	—	—
Subordinate debt	$	4,502	2,651	2,802	2,363	1,500
Secured debt less cash to net book value of equipment	%	72.7	74.5	70.2	71.6	68.0
Deferred income taxes	$	1,238	318	161	96	43
Shareholders' equity	$	3,927	4,070	3,402	2,861	2,612
OPERATIONS						
Lease income	$	14,450	11,121	8,730	6,433	6,210
Earned income	$	6,264	4,694	3,433	2,404	2,217
General and administrative expenses	$	1,788	1,208	837	668	737
General and administrative expenses to earned income	%	28.5	25.7	24.4	27.8	33.2
Provision for losses	$	470	450	448	239	260
Provision for losses to earned income	%	7.5	9.6	13.0	9.9	11.7
Cost of borrowed money	$	2,256	1,983	1,404	935	839
Cost of borrowed money to earned income	%	36.0	42.2	40.9	38.9	37.8
Net income before income taxes	$	1,713	1,058	671	603	347
Leases receivable added	$	26,184	21,214	14,138	10,668	7,025
Original cost of leased equipment	$	57,803	45,897	35,685	29,224	23,928
Net losses due to bad debts	$	238	301	292	295	225
Net losses to leases receivable	%	0.52	0.83	1.07	1.27	1.14
Number of employees at year end		137	105	63	53	52
Number of leases		41,200	32,600	25,200	20,800	17,500
Average original cost of equipment per lease	$	1,403	1,408	1,415	1,408	1,370

CANADIAN LEASING

HEAD OFFICE: 270 Sherman Avenue North, Hamilton, Ontario

SALES OFFICES:

Halifax, Nova Scotia
Quebec City, Quebec
Montreal, Quebec
Ottawa, Ontario
Hamilton, Ontario
London, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

DIRECTORS:

W. J. Bell
Executive Vice-President, North America Business Equipment Limited

J. F. Schunk
Executive Vice-President, The Medi-Dent Service Limited

R. N. Steiner
Senior Partner, A. E. Ames & Company

T. L. Townsend, Jr.
Vice-President, Wachovia Bank and Trust Company

N. H. Webster
Doctor of Dental Surgery

A. B. Young
President, North America Business Equipment Limited and The Medi-Dent Service Limited

D. M. Young
Chairman, Hamilton Leasing Limited

J. M. Young
Vice-President, The Hamilton Group Limited

W. H. Young
President, The Hamilton Group Limited

OFFICERS:

	MDS	NABEL
Chairman of the Board of Directors	N. H. Webster, D.D.S.	D. M. Young
President	A. B. Young	A. B. Young
Executive Vice-President	J. F. Schunk	W. J. Bell
Vice-President	W. J. Bell	J. F. Schunk
Secretary	O. M. Nitschke	O. M. Nitschke
Treasurer	O. M. Nitschke	R. A. Fielding

TRUSTEE FOR SECURED DEBENTURE HOLDERS:

MDS — The Canada Trust Company
NABEL — The National Trust Company

TRUSTEE FOR NABEL SUBORDINATE DEBENTURE HOLDERS: Montreal Trust Company

UNITED KINGDOM

Hamilton Leasing Limited

Hamilton Leasing Limited had another very successful year in the 12 months ended May 31, 1971. Lease income rose by 32% over the previous year, and net profits before tax were up 40%. This increase is the result of the Company's expanded sales activity, as business conditions in the U.K. in the past 12 months have been far from robust. Profits were helped by a general lowering of interest rates during the year.

During the year, Hamilton Leasing decided to introduce medical and dental leasing plans into the U.K., with the help of The Medi-Dent Service Limited. A new subsidiary of Hamilton Leasing, Medenta Services Limited, was formed and will be commencing business shortly. While profits from this new venture may be sometime in the future, the prospects are excellent.

In November, 1970, Hamilton Leasing completed further long term financing with the Industrial Commercial Finance Corporation, a financing corporation owned by the English clearing banks, involving shares, convertible debentures and unsecured loans. As a result, Hamilton Group's interest in Hamilton Leasing has been reduced to 27.9% from 30.7% and will be further reduced to 25.2% when ICFC converts its debentures and achieves control. In turn, this sponsorship by ICFC will enable Hamilton Leasing Limited to continue its planned 30% annual growth rate. Hamilton Group Limited, in its fiscal year to April 30, 1971, received $256,200 from Hamilton Leasing Limited in stock dividends and $32,591 after withholding taxes as an initial cash dividend. Even though Hamilton Leasing's profits before tax are expected to increase substantially, due to the necessity for Hamilton Leasing Limited to now make full provision for deferred income taxes, net income will likely be somewhat less in 1972.

The figures on Page 12 are reprinted from Hamilton Leasing Limited's 1970 annual report, with the addition of preliminary figures for 1971, to indicate the value of Hamilton Group's shareholding in Hamilton Leasing, which is carried at a book value of $924,050.

HAMILTON LEASING LIMITED

(all figures in 000's of pounds sterling)

INCOME AND DIVIDENDS

Year ended May 31st

	1971*	1970	1969	1968	1967	1966	1965	1964	1963
Lease income	5,281	4,008	2,861	2,120	1,684	1,188	715	350	65
Income before income taxes	481	339	220	205	141	93	48	27	4
Income taxes	(11)	49	—	—	—	—	—	—	—
Net income	492	290	220	205	141	93	48	27	4
Preference dividends	49	51	51	48	45	30	30	18	1
Earnings available for common shareholders	443	239	169	157	96	63	18	9	3
Common dividends	136	0	0	0	0	0	0	0	0
Retained earnings	307	239	169	157	96	63	18	9	3

SHAREHOLDERS' EQUITY

At May 31st

	1971*	1970	1969	1968	1967	1966	1965	1964	1963
Issued capital:									
Common shares	1,128	685	480	320	200	160	10	2	1
Preference shares	500	500	500	500	500	500	500	500	35
Reserves and retained earnings	463	407	170	161	123	65	22	12	3
Shareholders' equity	2,091	1,592	1,150	981	823	725	532	514	39

* preliminary

FRANCE

Societe de Gestion de Biens d'Equipment (SOGEBE)

SOGEBE had a disappointing year in 1970, and profits fell to half their previous level. New business was seriously curtailed by the credit restrictions prevailing in France throughout the year, and the interest rates paid for bank finance soared, with the result that SOGEBE suffered a severe margin squeeze. Because of this profit decrease, the dividend rate was halved to 3 francs a share. Margins are now improving, as interest rates in France decline, and SOGEBE is doing much more business as well, so 1971 should be a much better year. Overall growth prospects are still excellent.

During the year new financing regulations by the Bank of France meant that SOGEBE had borrowed the maximum amount permitted against its capital base, and continued growth would require additional capital. Thus in December, 1970 the shareholders agreed to double SOGEBE's paid-in capital to 9 million francs, and Hamilton Group Limited subscribed $211,036 as its share of this increase. Hamilton Group's investment in SOGEBE now amounts to $417,494 which is a 25.1% interest.

SPAIN

Alquiber S.A.

Alquiber continued its steady progress in 1970, with profits increasing 7% over the previous year. Tight money, poor local conditions, and more competition all combined to restrict the growth of profit last year, but easier conditions now should enable Alquiber to resume a satisfactory growth rate. Hamilton Group Limited through Hamilco Holdings Limited, owns 15% of Alquiber at a cost of $165,329.

ITALY

Societa Esercizio Locaziona Machinne Attrezzature S.p.A. (SELMA)

During the year SELMA commenced operations from its Milan office, but the volume of leasing achieved was very low, and it is apparent that introducing office equipment leasing into the Italian market will be a slow process. Leasing in all its forms is in its infancy there, and while the potential is great, Italian leasing companies have a big marketing job in front of them.

There is promising potential for SELMA, as there was for our office equipment leasing companies in England, Germany, France, Spain and Mexico when Hamilton Group Limited originated them, but it is going to take time for it to develop.

During the year SELMA's capital was increased from its nominal 1 million lire to 50 million lire. Hamilton Group owns 16% of the shares at a cost of $13,075 and the other shareholders are major Italian financial institutions.

MEXICO

Interamericana de Equipos de Oficina, S.A. (IEOSA)

During the period from February 1, 1970, the date of acquisition of control by Hamilton Group, to September 30, 1970, IEOSA's year end, new management was installed and operations and accounting completely changed over to be as similar to NABEL as practicable.

In the six-month period to March 31, 1971, IEOSA reported its first profits, 233,808 pesos, or approximately $18,500 Canadian. While this first profit is encouraging, even more important is the rapidly increasing volume of equipment purchased for lease and the growing acceptance of IEOSA's vendor leasing programme.

Since April 30, 1971, Hamilton Group has reduced its interest in IEOSA to 70% by selling 10% to Mexican shareholders. Under the terms of a tentative agreement with Citicorp Leasing International, Inc. Hamilton Group's ownership will be diluted to an eventual 30% level, but IEOSA then will have the financial backing to realize its potential. Until this agreement is approved, Hamilton Group has been arranging the necessary financing of new lease acquisitions. At April 30, 1971, Hamilton Group owned 80% of IEOSA at a cost of $139,098 and had advanced $126,347. In addition, advances to IEOSA of $780,000 had been guaranteed by Hamilton Group.

There is tax legislation pending in Mexico dealing with leasing and this makes the future methods of operation somewhat uncertain. However, the general business and growth potential for leasing appears very favourable.

OTHER INVESTMENTS

REAL ESTATE

The growth of the Canadian leasing operations has placed a strain on present office facilities which are in rented premises with the lease terminating in 1972. These are entirely inadequate to house the staff required for future expansion. A 21 acre parcel of land at the Queen Elizabeth Way and the Appleby Line in Burlington, Ontario, was purchased during the year and it is planned to begin construction soon of an office building there adequate for all office space requirements of the Hamilton Group in the foreseeable future.

Planning continues for the development of the six acres of land the Company owns in Dundas, Ontario, which is shown on the Balance Sheet as "Real estate held for sale". The 6.7 acres which the Company owns in central Hamilton, are rented to March, 1976, at which time they will be available for development.

TEXTILES

The Narrow Fabric division of the Company was profitable, although less so than the previous year as sales volume was down and profit margin reduced.

The Company owns 100,000 common shares, amounting to 20% of the issued capital of Cosmos Imperial Mills, Limited, at a book value of $250,000. Cosmos also leases land, buildings and equipment from the Company with lease payments extending to March, 1976. These leases are carried at a net book value of $1,607,550 in the accounts of Hamilton Group at its fiscal year end.

Cosmos showed a substantial loss for its year ended December 31, 1970 and the loss is continuing in its present fiscal year. A substantial programme of restructing and rationalization is underway. The costs of this programme are being charged to current operations.

Federal legislation to implement a previously announced textile policy became law in June, 1971. This was followed by a statement of the Federal Government that imports of cotton yarn into Canada from low price sources would be restricted to previous levels because of their damage to Canadian industry. This should prove of particular benefit to Cosmos Imperial Mills, Limited as over 60% of its sales result from this product. Government action on imports of cotton yarn could be followed by action on imports of other textile products manufactured by Cosmos Imperial Mills which are causing similar damage to Canadian industry. The combination of this helpful import legislation and the above-mentioned restructing programme is expected to restore Cosmos to a profitable position.

MISCELLANEOUS

The Hamilton Group has two subsidiaries operating in Europe. The book value of the Company's investment in and advances to these subsidiaries is $39,426, which amount is considered less than their ultimate realizable value.

One company operates coin laundries in West Germany. It is operating at a small loss although with a positive cash flow.

The other company is located in Belgium. It sells a product throughout Europe, which gives the appearance of animation to still pictures. The product is used in the fields of training, education, promotion and advertising. This company is operating at a small profit.

Hamilton Group also has investments totalling $148,491 in a company operating bowling alleys and other leisure-time activities in West Germany and a company operating coin laundries in Spain. Both of these companies are operating profitably.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited and subsidiaries as of April 30, 1971 and the consolidated statements of income, retained earnings and contributed surplus for the period from March 22, 1970 to April 30, 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1971 and the results of their operations for the period from March 22, 1970 to April 30, 1971, in accordance with generally accepted accounting principles applied in all material respects on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

Hamilton, Ontario,
June 15, 1971.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

(NOTE 1)

CONSOLIDATED BALANCE SHEET

APRIL 30, 1971

ASSETS

Cash	$ 1,095,706
Leases receivable (notes 2 and 6)	48,359,130
Allowance for losses	(814,127)
Unearned income (note 2)	(12,432,252)
Estimated residual value of property and equipment (note 2)	1,938,483
Equipment purchased for lease commitments, at cost	767,082
Mortgages and accounts receivable	657,495
Income taxes recoverable	393,201
Inventories (note 3)	858,592
Real estate held for sale, at cost	60,871
Prepaid expenses and deposits	80,741
Investments and advances (note 4):	
Subsidiary companies not consolidated	318,440
Others	1,925,956
Property, plant, equipment and improvements (note 5)	1,559,681
Deferred financing expenses less amounts written off	73,154
	$44,842,153

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

(NOTE 1)

CONSOLIDATED BALANCE SHEET

APRIL 30, 1971

LIABILITIES AND SHAREHOLDERS' EQUITY

Short term secured debt (note 6)	$22,643,262
Notes and accounts payable and accrued charges	3,118,356
Income and other taxes payable	256,055
Long term secured debt (note 6)	6,066,406
Subordinated funded debt (note 7)	3,502,322
Deferred income taxes	1,215,389
Shareholders' equity:	
Capital stock (note 8):	
Preferred shares, Series "A"	251,600
Common shares	3,103,643
	3,355,243
Retained earnings (note 9)	4,505,158
Contributed surplus	179,962
Total shareholders' equity	8,040,363
Contingent liabilities and commitments (note 10)	
	$44,842,153

On behalf of the Board:

W. H. YOUNG, Director

A. B. YOUNG, Director

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

(NOTE 1)

CONSOLIDATED STATEMENT OF INCOME

PERIOD FROM MARCH 22, 1970 TO APRIL 30, 1971

Lease rentals and related income	$14,287,790
Sales	3,736,050
Gross income	$18,023,840
Income before the following	$12,014,456
Recovery of cost of leased property (note 2)	7,855,114
Cost of borrowed money including $913,928 on indebtedness initially incurred for a term exceeding one year	2,397,721
Depreciation and amortization	150,705
	10,403,540
Operating income	1,610,916
Investment income	336,242
Income before income taxes and extraordinary item	1,947,158
Income taxes (note 11):	
Current	397,500
Deferred	536,000
	933,500
Income before extraordinary item	1,013,658
Extraordinary item:	
Recovery of income taxes by a subsidiary through the application of prior years' losses	97,500
Net income	$ 1,111,158

Earnings per share (note 12):

	Income before extraordinary item	Net income
Dividends paid	$ .44	$ .44
Undistributed earnings	1.14	1.29
	$ 1.58	$ 1.73

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

(NOTE 1)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

PERIOD FROM MARCH 22, 1970 TO APRIL 30, 1971

Amount at March 22, 1970	$ 4,362,805
Add net income	1,111,158
	5,473,963
Deduct:	
Dividends:	
Preferred shares, Series "A"	12,930
Common shares	285,945
	298,875
Excess of cost of investment in subsidiary companies over equity values at dates of acquisition	669,930
	968,805
Amount at April 30, 1971	$ 4,505,158

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

PERIOD FROM MARCH 22, 1970 TO APRIL 30, 1971

Amount at March 22, 1970	$ 176,632
Discount on redemption of preferred shares, Series "A"	3,330
Amount at April 30, 1971	$ 179,962

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 1971

1. The consolidated financial statements include the accounts of the company and all significant subsidiaries. All material intercompany balances and transactions have been eliminated. The subsidiaries not consolidated are either inactive or not material. On July 7, 1970 the directors approved the increase in the investment in North America Business Equipment Limited (NABEL) from 61% to 100% of the common shares outstanding, effective as of May 1, 1970 and the acquisition of all the outstanding common shares of The Medi-Dent Service Limited (MDS), effective as of August 1, 1970. The transactions were accounted for on purchase bases and involved the following payments:

	NABEL	MDS
Cash	$ 685,505	$ 355,495
90,425 common shares of no par value at market value	—	870,793
Total purchase price	$ 685,505	$1,226,288

The following net assets were acquired:

Tangible net assets at book value	$ 676,854	$1,424,909
Less applicable to preferred shares	—	(859,900)
Goodwill charged to retained earnings	8,651	661,279
Total purchase price	$ 685,505	$1,226,288

The consolidated statement of income includes the operations of the company for the period from its last fiscal year end, March 22, 1970 to April 30, 1971 and reflects the operations of NABEL and MDS from the effective dates of acquisition to April 30, 1971. The accounts of one other subsidiary are for its fiscal year ended March 31, 1971; all other subsidiaries' accounts are for the year ended April 30, 1971.

The five subsidiaries not consolidated are carried at cost as to $143,734, at equity value as to $13,592, unchanged since March 22, 1970, and at nominal value as to $1. Four of these subsidiaries suffered aggregate losses of $13,167 for their fiscal years ended in the period from March 22, 1970 to April 30, 1971 and the aggregate accumulated losses from dates of acquisition amount to $139,965. Current financial statements of one subsidiary are not yet available; the accumulated losses of this subsidiary from date of acquisition to its fiscal year ended in 1969 amounted to $6,427.

Assets and liabilities originating in foreign currencies have been translated to Canadian dollars on the following bases: current items at the rates in effect at April 30, 1971; other items at the rates in effect at the dates the transactions were completed.

Comparative figures for 1970 and a consolidated statement of source and application of funds have been omitted as they would not be meaningful.

2. The Canadian leasing subsidiaries generally follow the practise of recording gross rentals to be received over the periods of the leases and, except for two subsidiaries, residual values on leases written (estimated at 5% of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. For a relatively small number of leases, where residual values are contractual, unearned income is determined on cost net of such residual values. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount sufficient to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in diminishing monthly amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.
The lease contracts provide for equal periodic payments to be received over their terms. The amount of rentals to be received over the next five years and thereafter is summarized below:

Year ending April 30:	
1972	$15,010,155
1973	13,485,674
1974	10,220,148
1975	6,677,500
1976	2,791,615
Thereafter	174,038
	$48,359,130

3. Inventories are valued at the lower of cost or replacement cost for raw materials and work in process and at the lower of cost or net realizable value for finished goods.

4. Investments and advances:

Subsidiary companies not consolidated:

Investment in shares (note 1) ....$	157,327
Advances	214,863
	372,190
Less allowance for loss	53,750
	$ 318,440

Other companies:
Investment in shares:

At cost plus value of stock dividends ....$	924,050
At cost	746,824
At market value, March 22, 1970 (quoted market value $220,000)	250,000
	1,920,874
Advances	5,082
	$ 1,925,956

The latest financial statements of two companies whose shares are carried at a cost of $286,408 are not yet available. For the remaining investment in other companies the aggregate net underlying asset values exceed the carrying value.

5. Property, plant, equipment and improvements:
Buildings:

As valued by the Board of Directors on March 23, 1969 ..$	391,421
At cost	62,014
	453,435
Equipment and improvements, at cost	1,673,822
Automobiles, at cost	133,800
	2,261,057
Less accumulated depreciation and amortization	1,168,651
	1,092,406

Land:

As valued by the Board of Directors on March 23, 1969	$ 154,552	
Additions after March 23, 1969 at cost	312,723	467,275
		$ 1,559,681

Certain properties and machinery and equipment, valued by the Directors on March 23, 1969 at $2,256,447 and related depreciation of $648,897 at April 30, 1971, previously recorded as fixed assets, are now leased and their net book value is included in leases receivable, unearned income and residual value of leased property.

6. Two leasing subsidiary companies are authorized to issue various series of secured notes and debentures in unlimited amount but only upon and subject to the conditions and limitations as set forth in Trust Indentures dated December 1, 1964 and October 1, 1965 both as subsequently amended. Equipment leases having an aggregate value of $45,768,925 have been deposited with the Trustees as security for the notes and debentures.

Short term secured debt:

8% First Mortgage sinking fund bonds due April 1, 1972 ....$	491,000	
8¾% Sinking Fund debentures Series "A" due August 1, 1983	825,000	
	1,316,000	
Less funds held by the Trustees	183,858	
Balance, all retired since April 30, 1971		1,132,142
Secured by notes and debentures issued by subsidiary companies in amounts aggregating $24,110,275 of which $10,456,214, including $202,339 to provide for the exercise of forward exchange commitments at the current rate, is payable in U.S. funds and $278,900 is payable in Deutsch Marks		20,389,120
Bank loan, secured by hypothecation of accounts receivable, inventories and certain securities		1,122,000
		$22,643,262

Long term secured debt (payable by subsidiary companies):

Maturing in year ending April 30,

	Rate %	
Notes:		
1972	9-1/2	$ 5,000
1973 ($1,000,000 U.S.)	6-15/16 - 9-1/2	1,061,250
1974 ($1,100,000 U.S.)	8-7/8 - 10-3/4	1,153,937
1975 (including $642,531 payable in $600,000 U.S.)	7-5/8 - 10-3/4	1,232,531
1976 ($300,000 U.S.)	10-3/4	307,594
First series debentures:		
1972 ($250,000 U.S.)	7-3/16	270,000
1974 ($500,000 U.S.)	7-7/8	516,094
1976	7-3/8	500,000
1974	8	500,000
1969 debentures:		
1985	8-1/2	250,000
1985 ($250,000 U.S.)	7-1/2	270,000
		$ 6,066,406

The 1969 debentures require annual sinking fund payments of $20,000 and $20,000 U.S. on July 1 in each of the years 1973 to 1983 inclusive and may be redeemed at the company's option at a premium of 10% to June 30, 1979, reducing by 2% annually thereafter.

7. Subordinated funded debt:

6½% Subordinated Debentures Series "A" maturing June 1, 1980 of which $50,000 are required to be retired by way of sinking fund on June 1, in each of the years 1971 to 1979 inclusive. The debentures are redeemable at the company's option at a premium of 4% to June 1, 1971 reducing by ½ of 1% annually thereafter to no premium after June 1, 1979	$ 1,350,000
8% Subordinated Serial Debentures Series "B" maturing as to $29,500 U.S. on June 1 and December 1 in each of the years 1971 to 1977 inclusive and June 1, 1978 and as to $28,000 U.S. on December 1, 1978. The debentures are redeemable at the company's option at the principal amount plus costs of purchase not exceeding ½ of 1% ($470,500 U.S.)	508,140
Due November 16, 1976 (U.S. funds $564,796, repayable $47,059 U.S. semi-annually) 8%	609,282
Junior subordinated notes payable:	
Due August 1, 1979 (repayable $21,875 annually) 8¼%	175,000
Due August 1, 1979 (repayable $107,487 annually) 9%	859,900
	$ 3,502,322

8. Capital stock:

Preferred shares authorized, issuable in series, 50,000 shares of a par value of $100 each.

Issued:

5% cumulative redeemable sinking fund preferred shares Series "A", after redemption of 180 shares during the year, 2,516 shares .... $ 251,600

The 8,250 6% cumulative redeemable convertible preferred shares Series "B", outstanding at March 22, 1970, were converted into 165,000 common shares during the fiscal period.

The preferred shares Series "A" are redeemable at $101 plus accrued and unpaid dividends. The company is required to provide $15,000 (or less in certain circumstances) annually for the redemption of preferred shares which provision was fulfilled for the current fiscal period.

Common shares of no par value. Authorized 2,500,000 shares; issued 690,475 shares including the issue since March 22, 1970 of 165,000 shares on conversion of Series "B" preferred shares, 12,550 shares for cash on the exercise of warrants and 90,425 shares issued on the acquisition of The Medi-Dent Service Limited. By supplementary letters patent dated May 1, 1970 the common shares authorized were subdivided into 1,000,000 shares of no par value and by supplementary letters patent dated October 15, 1970 the authorized common share capital was increased to 2,500,000 shares of no par value.

19,950 common shares are reserved for issuance

on the exercise of Series "A" warrants issued with the $8\frac{3}{4}\%$ sinking fund debentures Series A. These warrants entitle the holders thereof to purchase an aggregate of 19,950 common shares at a price of $7 per share up to and including July 2, 1972 when they expire.

At April 30, 1971, 45,000 common shares of one subsidiary were reserved for purchase by holders of Series "A" Common Share Purchase Warrants at $7.50 per share to October 1, 1971. These were subsequently exchanged for the company's Series "B" warrants giving the holders the right to purchase 28,125 common shares at $12 per share to October 1, 1971 when they expire. Also at April 30, 1971 5,000 common shares of another subsidiary were reserved for issuance to the holders of common share purchase warrants at a price of $4 per share if purchased on or before August 15, 1974 and at $8 per share thereafter if purchased on or before August 15, 1979 when they expire.

9. Retained earnings include $177,500 arising from the redemption of preferred shares which amount is not available for dividends.

10. Contingent liabilities:

As guarantor of loans to a subsidiary not consolidated $780,000 U.S. For leases assigned to a maximum of $97,650 annually to February 26, 1973.

The Department of National Revenue has questioned the deductibility of certain rental payments made under sale and lease back transactions for the tax years 1964 to 1968 inclusive. These transactions commenced in 1962 and were accepted by the Department for that year and 1963. If re-assessments are made the additional income taxes after adjusting capital cost allowances will be approximately $200,000 with interest. The company will object to any such re-assessment as in the opinion of management and counsel no additional taxes are exigible.

Commitments:

Forward exchange contracts for $10,000,000 U.S. maturing on various dates to February 11, 1972.

11. Current income taxes are payable by three subsidiaries. Because of substantial amounts of non-taxable items included in income and prior years' losses no income taxes are payable by the company or the other consolidated subsidiaries. Additional losses are available for future years.

12. Earnings per share:

If it were assumed that the share purchase warrants of the company and two subsidiaries had been exercised at the beginning of the companies' fiscal years the earnings per share would have been:

	Income before extraordinary item	Net income
Dividends paid	$ .44	$ .44
Undistributed earnings	.98	1.13
	$ 1.42	$ 1.57

In the fully diluted earnings per share calculation the assumption is made that the share purchase warrants had been exercised at the prices attaching thereto and that the funds derived therefrom had been invested to produce an annual return of 9% or an imputed income after applicable taxes of $21,800. The resulting minority interests in the subsidiaries have also been assumed.

If it were assumed that the Series "B" warrants of the company had been exercised at March 22, 1970 at the price attaching thereto and that the imputed income was substantially the same in the aggregate as in the calculation of fully diluted earnings per share the pro forma earnings per share would have been:

	Income before extraordinary item	Net income
Dividends paid	$ .44	$ .44
Undistributed earnings	1.05	1.19
	$ 1.49	$ 1.63

13. In the period from March 22, 1970 to April 30, 1971 there were nine directors whose remuneration as directors amounted to $3,000 and five officers, four of whom were directors, whose remuneration as officers amounted to $122,207 of which $14,583 was paid by a subsidiary.

BANKERS

CANADA	Bank of Montreal Bank of Nova Scotia Canadian Imperial Bank of Commerce The Mercantile Bank of Canada Royal Bank of Canada Societe Financiere pour le Commerce et l'Industrie Ltd.
GERMANY	Schroder, Munchmeyer, Hengst & Co.
UNITED KINGDOM	Henry Ansbacher & Co. Ltd. Arbuthnot, Latham & Co. Limited Wm. Brandt's Sons & Co. Ltd. Burston & Texas Commerce Bank Ltd. Charterhouse Japhet Limited Hill Samuel & Co. Limited International Commercial Bank Limited London Multinational Bank Limited Rothschild Intercontinental Bank Limited
UNITED STATES OF AMERICA	American Express International Banking Corporation Barclays Bank of New York The Chase Manhattan Bank City National Bank of Detroit The Detroit Bank and Trust Company The Fidelity Bank Fidelity International Bank The First National Bank of Chicago Marine Midland Bank—Western The Philadelphia National Bank Wachovia Bank and Trust Company

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